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REPORT
No. 97-434

JOB CREATION AND THE REVITALIZATION OF SMALL BUSINESS

A REPORT

OF THE

COMMITTEE ON SMALL BUSINESS
HOUSE OF REPRESENTATIVES
NINETY-SEVENTH CONGRESS

SECOND SESSION

FEBRUARY 23, 1982.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

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LETTERS OF TRANSMITTAL

CONGRESS OF THE UNITED STATES,
HOUSE OF REPRESENTATIVES,
COMMITTEE ON SMALL BUSINESS,
Washington, D.C., February 23, 1982.

Hon. THOMAS P. O'NEILL, Jr.,
The Speaker,
U.S. House of Representatives,
Washington, D.C.

DEAR MR. SPEAKER: Transmitted herewith is a report of the Committee on Small Business entitled, "Job Creation and The Revitalization of Small Business."

The report is submitted with the approval of the full committee.

With best wishes, I am,

Sincerely,

PARREN J. MITCHELL,
Chairman.

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON SMALL BUSINESS,
SUBCOMMITTEE ON TAX, ACCESS TO
EQUITY CAPITAL AND BUSINESS OPPORTUNITIES,
Washington, D.C., February 5, 1982.

Hon. PARREN J. MITCHELL,
Chairman, Committee on Small Business,
U.S. House of Representatives, Washington, D.C.

DEAR MR. CHAIRMAN: Transmitted herewith is a report of the Subcommittee on Tax, Access to Equity Capital and Business Opportunities entitled, "Job Creation and The Revitalization of Small Business."

The report is submitted with the approval of the subcommittee.

With best wishes and kind regards,

Sincerely,

HENRY J. NOWAK,
Chairman.

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97TH CONGRESS, 2d Session } HOUSE OF REPRESENTATIVES { REPORT No. 97-434

JOB CREATION AND THE REVITALIZATION OF SMALL BUSINESS

FEBRUARY 23, 1982.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

Mr. MITCHELL of Maryland, from the Committee on Small Business, submitted the following

REPORT

CHAPTER I.—BACKGROUND AND PURPOSE OF HEARINGS

As Chairman of the Subcommittee on Tax, Access to Equity Capital and Business Opportunities, Representative Henry J. Nowak (D.-N.Y.), conducted hearings on September 15 and 22, and October 14, 1981, to investigate the role of small business in job creation and in urban revitalization. The three primary areas of discussion were: The need for viable economic incentives for distressed areas; the effectiveness of tax exempt small issue industrial development bonds; and the impending skilled labor shortages facing the Nation.

These hearings were based on the premise that the future vitality and economic growth of the United States economy is dependent on small business. This premise is derived from the notion that small business is the linchpin of the job generation process. For example, a study conducted by the Massachusetts Institute of Technology indicates that two-thirds of all net new jobs created between 1969 and 1976, were created by firms of fewer than 20 employees and about 80 percent were created by firms with 100 or fewer employees.[1]

TABLE I.—PERCENTAGE OF JOBS CREATED BY SIZE OF FIRM AND REGION [1]

	Percent of jobs created				
	Northeast	North central	South	West	U.S. average
Number of employees in firm:					
0 to 20	177.1	67.2	53.5	59.5	66.0
21 to 50	6.5	12.0	11.2	11.6	11.2
51 to 100	−17.4	5.2	5.5	6.3	4.3
101 to 500	−33.3	3.1	9.4	9.3	5.2
501 plus	−32.9	12.4	20.4	13.3	13.3
Total	100.0	100.0	100.0	100.0	100.0

[1] Source: MIT program on neighborhood and regional change.

With small business in the role of the primary job creator, the economy is undergoing major structural changes. These changes are occurring both in terms of a decline in the general prosperity of the older urban centers and with respect to a change in the types of industries upon which this country's economy is based. In particular, the latter represents a shift from a heavy industrial base to a service sector economy dominated by smaller firms.

Under the Administration's budget request, there is a sharp shift away from general domestic spending and toward increased defense spending. The proportion of defense spending to Federal outlays will increase from 24.1 percent in 1981 to 32.4 percent by 1985.[2] In fiscal

[1] Prof. David L. Birch, "Who Creates Jobs," Public Interest, fall 1981. For further information on the role of small business as the Nation's job creator, see the "Report on the Future of Small Business in America," Committee on Small Business, U.S. House of Representatives, 95th Congress, p. 7.

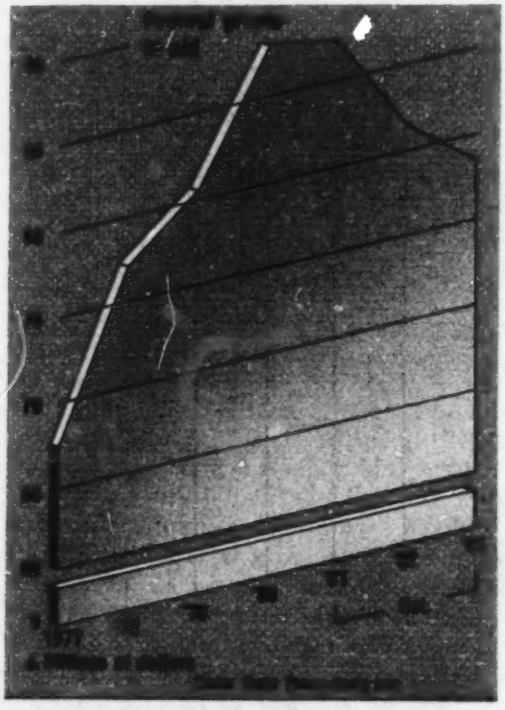
[2] "The Regional and Urban Impacts of the Administration's Budget and Tax Proposals," Joint Economic Committee, July 31, 1981, p. 11. In September 1981, the Administration proposed modest reductions in its defense expenditure proposals.

year 1982 alone, the Administration has requested an increase of $45.6 billion in defense spending representing a 13-percent real growth rate from the year before.[3]

The shift in Federal budgetary priorities will have a major impact on the ability of the cities to provide adequate services, economic prosperity and full employment for its residents. Without factoring the impact of inflation into its budget requests, the Administration proposes to reduce Federal grants to State and local governments from $88 billion in 1980 to $78.6 billion in 1981, a decline of approximately 11.3 percent.[4] (See table II.) The Administration's revised budget request for fiscal year 1982 [5] reduces funding for the Economic Development Administration by 93.6 percent and, in effect, eliminates Urban Development Action Grants (UDAG) as a separate program (as stated in table III).[6]

Besides the impact of reduced Federal spending, many State and local governments face a decline in tax revenues due to the Economic Recovery Tax Act of 1981, as signed into law by the President. This will occur because many States conform their tax laws to the U.S. Internal Revenue Code. It would generally take an affirmative action on the part of the State legislature to avoid automatic reductions in

TABLE II.—TOTAL FEDERAL GRANTS IN AID TO STATE AND LOCAL GOVERNMENTS



[3] Ibid., p. 11.
[4] These budget computations as well as table II, are found in Business Week "Special Report on State and Local Governments in Trouble," Oct. 26, 1981, p. 137.
[5] Memorandum on "The Impact of President Reagan's Revised Fiscal 1982 Budget," from Larry Zabar, Executive Director, Northeast-Midwest Congressional Coalition, Oct. 7, 1981.
[6] For a description of Federal programs for economic development and public works improvements, see "1981 Guide to Federal Resources for Economic Development," Northeast-Midwest Institute, Washington, D.C.

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State revenues resulting from a cut in Federal taxes when there is a conforming statute involved.

Another program which faces possible curtailment is the use of tax exempt small issue industrial development bonds (IDBs). Currently, 47 States authorize and thus consider the use of IDBs as an important economic tool for promoting business expansion and job creation. The utilization of IDBs by businesses is in jeopardy, however, because of the administration's September 1981 proposal to curtail their use. Officials of the Reagan administration are concerned with the potential revenue loss resulting from the tax exempt status of IDBs, which is projected to rise to $2.9 billion by 1986.[7]

TABLE III.—SELECTED BUDGET ISSUES OF THE ADMINISTRATION'S REVISED FISCAL 1982 BUDGET FROM SEPTEMBER 1981

Program	Fiscal 1981 (billions)	Revised budget request for fiscal 1982 (billions)	Percent reduction from fiscal 1981
Community development block grants	$3.694	$3.666	0.75
Urban development action grants	.675	[1] 0	100.0
Economic development assistance programs	.437	.028	93.6
General revenue sharing	4.570	4.022	12.0
Mass transit	4.659	3.317	28.8
Employment and training assistance programs (including CETA)	7.143	3.238	54.7
Total for selected programs	21.178	14.271	32.6

[1] To be folded into community development block grants program.

Other structural changes in the economy are taking place due to the push by many of the Nation's largest businesses toward increased automation. Some experts believe that 45 percent of the work force (or as many as 45 million existing jobs) could be affected by factory and office automation.[8]

A recent Business Week article stated: "Scholars of automation do not expect this rapid substitution of machinery for human labor to increase unemployment, assuming healthy economic growth. But they do expect a radical restructuring of work including a devaluation of current work skills and the creation of new ones at an ever increasing rate. . . . These changes will require employers to retrain huge numbers of workers. Ultimately, the Nation's education system will have to prepare future workers for functioning in an electronic society."[9]

Another structural change which is occurring in the American economy is the impending skilled labor shortage faced by many small- and medium-sized businesses. These businesses, which are greatly concerned by general employment trends, often have trouble meeting the high cost involved in training employees for skilled positions. One industry in particular, the tooling and machining trade, estimates that it faces an acute shortage of approximately 60,000 skilled workers right now and expects there to be a demand for 250,000 additional workers by 1985.[10]

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[7] In its presentation to the Nation on Sept. 24, 1981, the Reagan administration proposed curtailing the use of small issue IDBs. Further, the Treasury Department issued Rev. Rul. 81-216, which provides that IDB's issued (by a State or local agency) after Aug. 24, 1981, in multiples of $1 million may not qualify as exempt small issues.

[8] "The Speedup in Automation: Changing 45 Million Jobs," Business Week, Aug. 3, 1981, p. 62.

[9] Ibid., p. 62.

[10] Harold Corner, president, and Bruce N. Hahn, manager, Government Affairs, for National Tooling and Machining Association, Hearing Record, Sept. 15, 1981.

In conjunction with the above transformations in the U.S. economy, the administration and Congress must come to grips with the issue as to what are the basic legitimate needs of the country's local communities and of its labor force. As the linchpin in the job generation process, small business stands ready to play a constructive role in this debate. The Nation cannot hope to move toward increased prosperity and economic growth without small business in the vanguard.

THE DEFINITIONAL INTERPLAY OF JOB CREATION IN URBAN REVITALIZATION AND ECONOMIC DEVELOPMENT

The term job creation often becomes confused with the need for revitalization of industry or of the promotion of economic development in a community. Representative Buddy Roemer (D.-La.) suggests that revitalization could be defined as a $200 million steel and concrete monument which employs only eight people. He stated: "That in a sense is revitalization, but it's surely not putting good people to work . . .".[11] Thus, in trying to reconcile the various approaches to defining the terms "economic development" and "revitalization" this report will utilize the definition used by the National Commission for Employment Policy.[12] Specifically, the Commission emphasizes the need to create and retain jobs in a local community.[13]

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[11] Rep. Buddy Roemer, Hearing Record, Sept. 22, 1981.
[12] The National Commission for Employment Policy, Sixth Annual Report to the President and the Congress, Section C, on Economic Development Policies to Reduce Structural Unemployment, p. 145.
[13] Ibid.

CHAPTER II.—THE NEED FOR A COORDINATED PLAN FOR JOB CREATION IN DISTRESSED AREAS

At a time when Congress and the administration are looking to reduce the role of the Federal Government in the economic affairs of the Nation's local communities and of its citizens, the concept of providing targeted tax incentives for distressed areas has become the focal point of discussion among economic development planners. This concept has acquired such names (among others) as "enterprise zones" [14] and "job expansion areas." [15] The most widely used term has since become "enterprise zones."

When the Conservative Party took control of the British Parliament in 1979, it began to draft legislation to implement the enterprise zone concept. Initially, the plan envisioned the creation of a zone in a small area of the city free of taxes, regulations, or governmental intrusion into business and economic development.[16] The initial proposal on enterprise zones was determined to be unworkable and eventually became law providing only for a reduction in the corporate income tax rate.[17]

Underlying the targeted tax incentive strategy is the belief that across the board tax incentives and deregulation will spur business investment and job creation in the Nation's urban centers. Dr. Stuart Butler envisions this concept as a way to expand the economic pie by causing factors of production to become active.[18]

Congressman Nowak contends that although targeted tax incentives promise to provide a measure of relief for areas suffering from long term economic deterioration, they should not be considered as a cure for all of our urban problems.[19] Moreover, Moon Landrieu [20] and the Baltimore Economic Development Corporation [21] believe that tax incentives should not constitute an entire program for economic development. On this point, Mr. Landrieu stated: "I have very little hope that they (tax incentives) will work effectively without the availability of the other Federal programs."

Present Federal programs are designed to help businesses with their working or seed capital needs,[22] provide communities with proper

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[14] Term used in S. 1310 and H.R. 3824, the Urban Jobs and Enterprise Zone Act of 1981.
[15] Term used in Rep. Henry J. Nowak's bill, H.R. 2965, The Enterprise Development Act of 1981.
[16] "Enterprise Zones, a Push From the 'Invisible Hand'" by Peter Tropper, Northeast-Midwest Institute, July 1981, p. 1.
[17] Ibid., p. 1.
[18] Dr. Stuart Butler, Policy Analyst, for The Heritage Foundation, Hearing Record, Sept. 22, 1981.
[19] Opening statement, Chairman Henry J. Nowak, Hearings on Job Creation and Revitalization of Small Business, Sept. 15, 1981.
[20] Moon Landrieu, Rogers and Wells, Washington, D.C., former Secretary of Housing and Urban Development, Hearing Record, Sept. 22, 1981.
[21] David O. Hash, Senior Vice President, Baltimore Economic Development Corporation, testifying for Mayor William Donald Schaefer, Baltimore, Md., Hearing Record, Sept. 22, 1981.
[22] Among others, agencies that provide business with loans or grants include the Economic Development Administration and Community Services Administration of the Department of Commerce.

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infrastructure (such as sewer and transportation facilities),[23] and to train individuals for the public and private sectors.[24] This latter program, which involves the human capital needs of a community, requires funding for job training, vocational education, and health care.

Many of these programs face reduced funding, however. The administration's revised fiscal 1982 budget request reduces funding for many Federal urban programs (on the average) by as much as 32.6 percent from fiscal 1981 appropriations.[25] Moreover, these budget reductions are coming at a time when State and local governments are facing a declining tax base and record breaking interest rates on municipal bonds.

In elaborating on this situation, Cheston Carey, Jr. stated: ". . . the budget problems in Washington are fast becoming the problems of State and local governments." [26] He further contends that although these programs may be on the wane, such programs will continue to be important in enterprise zones or targeted areas in the future.[27]

With all of the budget cuts taking place, the American Planning Association warned targeted tax incentive legislation is being seen as the only game in town, and that a lot of probably unintentional responsibility is being heaped upon it.[28]

Tax incentives are clearly an important economic development tool for spurring business expansion and growth. In addition, tax reduction measures enable the business to increase its retained earnings and thus its cash flow. This is especially important in periods of high interest rates and inflation as it reduces the business' borrowing needs. However, start-up businesses and other firms with little or no profits generally cannot utilize tax credits and deductions. Such companies must, therefore, find other ways to meet their working capital needs.[29]

For these reasons, the American Planning Association [30] and others contend that economic development legislation should include a comprehensive plan and utilize the full range of economic development tools available. This would include provisions for infrastructure improvements, meeting the human capital needs of a community, seed capital and viable tax incentives to spur business expansion.

A. INFRASTRUCTURE BASE OF A COMMUNITY

In recent years the United States has found itself facing an infrastructure crisis,[31] which many contend is not isolated merely to the Nation's older urban centers.[32] This crisis involves the proper main-

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[23] Such as Public Works and Development grants of the Economic Development Administration and Community Development Block grants of the Department of Housing and Urban Development.

[24] U.S. Department of Labor, through the Comprehensive Employment Training Act (CETA) provides assistance for training in both the public and private sectors.

[25] See Table III.

[26] David Sloane, Director, Congressional Relations, and G. Cheston Carey, Member Enterprise Zone Subcommittee, Greater Baltimore Committee, Inc., testifying for the National Association of Wholesaler-Distributors. Hearing Record, Sept. 22 1981.

[27] M. Carl Holman, President, for National Urban Coalition, Hearing Record, Sept. 22, 1981.

[28] Vernon E. George, Chairman, Economic Planning Division, for American Planning Association, Hearing Record, Sept. 22. 1981.

[29] Chairman Nowak, Opening Statement, Sept. 15, 1981.

[30] American Planning Association, Hearing Record, Sept. 22, 1981.

[31] "Financing Options for Urban Infrastructure," by George E. Peterson, Mary J. Miller, Urban Institute, August 1981, p. 1.

[32] "Infrastructure: A Nationwide Need to Build and Repair," Business Week, Oct. 26, 1981, p. 143.

tenance of our sewer and transit systems, streets, bridges, and water facilities.

Mr. Nowak believes that a viable infrastructure base is important in order to encourage businesses to locate and remain in our urban centers.[33] In particular, the existence of infrastructure and other community supportive services are seen as a major component in any revitalization plan.[34]

In commenting on the need for adequate infrastructure, Pat Choate and Susan Walter state that: "Public works play a crucial role in the creation of national wealth and productivity growth. Education, research and development, and public works are the only real *supply side investments* the public sector makes in our economy.

"Together, with an aging industrial plant, deterioration of our public infrastructure has contributed to the decline in American productivity." [35] (Emphasis added.)

State and local governments have increased their capital investment in infrastructure from $13.5 billion in 1960 to an estimated $55.9 billion in 1980.[36] While the actual spending levels on infrastructure were increasing dramatically during that period, there has been a steep decline during the same period in the share of State-local budgets devoted to capital expenditures. Between 1960 and 1979, gross capital investment as a percent of total State and local budgets fell from 27.1 percent to 15.7 percent.[37] At the same time, the burden on the Federal Government as a percent of total State and local capital investment doubled between 1970 and 1980 to approximately 40 percent. (See table IV.)

TABLE IV.—STATE AND LOCAL CAPITAL EXPENDITURE TRENDS [1]

	Gross capital investment by State and local governments (billions)	Federal aid as a percent of total State and local capital investment
Fiscal year:		
1970	$28.8	20.5
1975	41.8	21.4
1976	39.9	28.5
1977	39.0	42.5
1978	46.7	38.5
1979	50.8	39.0
1980	55.9	[2] 40.0

[1] Urban Institute, "Financial Options for Urban Infrastructure," by George E. Peterson and Mary J. Miller, August 1981, p. 9 (using data of the Office of Management and Budget, Executive Office of the President).
[2] Estimate as provided by Urban Institute.

As a result of the fiscal 1982 Federal budget cuts, the relative burden for infrastructure improvements will begin to shift back to the State and local governments. This will be a task which most older urban centers will not be able to handle. For example, Mayor James Griffin revealed that his City of Buffalo is only $6 below its constitutional limit for taxing. Such limitations on local tax bases will only serve to foster further deterioration in the capital plant of older urban centers. In

[33] Chairman Nowak, Opening Statement, Sept. 1, 1981.
[34] Charles F. Rosenow, Director of Public Investment, Erie County Industrial Development Agency, Buffalo, N.Y., for National Council of Urban Economic Development, Hearing Record, Sept. 22, 1981.
[35] "America in Ruins Beyond the Public Works Barrel," by Pat Choate and Susan Walter, Council of State Planning Agencies, Washington, D.C.
[36] "Financing Options for Urban Infrastructure," Urban Institute, August 1981, p. 6.
[37] Ibid., p. 6.

particular, the maintenance work forces on capital plant and facilities in such cities as Cleveland, Newark, and St. Louis are being devastatingly cut.[38] Newark reduced its street maintenance work force by a third between 1973 and 1978.[39] While bridge maintenance in St. Louis is limited to emergency repairs, its water distribution system maintenance crew has lost 120 people over a 10-year period.[40]

When facing severe budgetary pressures, many cities are forced to put their spending priorities into funding basic services, including police, fire, and sanitation. Notwithstanding, local governments can put off expenditures on maintenance and construction of infrastructure only so long. These same governments will soon be faced with choosing between increasing their investment in capital equipment and facilities or of lowering (maintenance or needs) standards to meet budgetary constraints or of adopting more cost effective replacement strategies.[41]

The development of more efficient capital investment strategies may prove to be difficult, especially at a time when local roads, bridges, and mass transit systems are in severe decay. One commentator has stated that the problem is so pervasive that "three-quarters of America's communities can't participate in Reagan's economic growth program." [42]

Despite the fact that the cities have done their part in controlling expenditures, there is a continual need for Federal programs to fund infrastructure improvements. Programs of such agencies as the Economic Development Administration are considered necessary to finance road and utility construction to make an urban area competitive.[43] Without such moneys, a major industrial park in Buffalo may never have materialized.[44]

B. HUMAN CAPITAL DIMENSION

Current Federal programs involving defense, transportation, water, air, and energy have an important impact on economic development and job creation. In order to strengthen these programs, there should be a provision for human capital development efforts.[45] More specifically, this effort should focus on helping the unemployed and underemployed. Many commentators contend this is a major factor in improving American productivity.[46] In particular, this should involve an effort to resolve the critical shortage of skilled labor and to train the unskilled.[47]

Regardless of whether the individual is skilled or unskilled, he will not become a productive worker unless he has a good basic education

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[38] Capitol Stock Conditions in Twenty-Eight Cities," by Nan Humphrey and Peter Wilson, The Urban Institute, Feb. 15, 1980, p. 60.
[39] Ibid., p. 60.
[40] Ibid., p. 60.
[41] Financing Options, op. cit., p. 39.
[42] "Special Report on State and Local Governments in Trouble," Business Week, Oct. 26, 1981, p. 142.
[43] David O. Hash, Senior Vice President, Baltimore Economic Development Corporation, Hearing Record, Sept. 22, 1981.
[44] Mayor James Griffin, Buffalo, N.Y., Hearing Record, Sept. 15, 1981.
[45] For a discussion of the need for human capital development legislation, see Weicker, Congressional Record, Oct. 30, 1981, S. 12664.
[46] "Expanding the Opportunity to Produce: Revitalizing the American Economy Through New Enterprise Development," A Policy Reader edited by Robert Friedman and William Schweke, The Corporation for Enterprise Development, Washington, D.C., p. 401.
[47] For a discussion of the shortage of skilled labor facing United States industry, see Chapter IV of this report.

and a proper work attitude. Carl Holman defines a good basic education in terms of an individual's being able to read, write, and handle numbers.[48] A proper work attitude includes such things as having a neat appearance, showing up to work on time, and having enthusiasm for one's job.

Federal manpower programs have traditionally focused on both public service and private sector jobs. The greatest increase in outlays in the past, however, has been for public service employment. For example, between fiscal years 1972 and 1979, outlays for public service jobs increased from $560 million to $5.1 billion.[49] This was 54 percent of the total Comprehensive Employment and Training Act budget (of $9.4 billion) for 1979.

Public service jobs have often been criticized as doing nothing more than displacing private sector jobs.[50] Other criticisms have involved the influence of public service employment jobs on the rate of inflation. In this regard a successful job creation program would lower the unemployment rate without aggravating inflation.[51]

As a response to such criticism, the Private Sector Initiative Program under Title VII of CETA was enacted in 1978, for the purpose of helping to eventually redirect CETA's emphasis on public sector employment toward private sector jobs.[52] Under the Private Sector Initiative Program, private industry councils would be set up in communities to increase the employment and training opportunities in the private sector for the economically disadvantaged. Members of the council would be from private industry, labor, community based organizations and the local educational systems or programs. In general, these councils provide funding for private companies to defray the cost of training, which is often classroom and on-the-job instruction.[53]

An example of a private sector initiative grant is the provision of $362,000 for auto mechanic training in Detroit. The Michigan Automobile Dealers Association pledged to place at least 85 percent of the trainees completing the course. Employers paid for half the cost of the 12-week training program.[54]

Another proposal to reduce the unemployment rate is for legislation to require State employment offices to use a portion of their existing budgets to utilize private employment agencies to locate jobs for individuals.[55] The rationale for this approach is that the private service professions can find jobs for people more efficiently than local government agencies.

Besides direct funding programs such as CETA, the Federal Government has provided employers with tax credits to hire the unem-

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[48] M. Carl Holman, for National Urban Coalition, Hearing Record, Sept. 22, 1981.
[49] The National Commission for Employment Policy, Sixth Annual Report to the President and the Congress, Section C, on Economic Development Policies to Reduce Structural Unemployment, p. 145.
[50] Ibid., p. 72.
[51] Ibid., p. 74.
[52] Ibid., p. 94.
[53] More specifically, the private industry councils act in consultation with the prime sponsor when providing funds to private companies. The prime sponsor, which may be a State or unit of a local government, is what establishes a private industry council for a community.
[54] 1981 Guide to Federal Resources for Economic Development, Northeast-Midwest Institute, Washington, D.C., p. 67.
[55] See written testimony of Robert O. Snelling, Sr., president and chairman of the board, Snelling and Snelling, Inc., submitted to House Education and Labor Subcommittee on Employment Opportunities, Nov. 2, 1981.

ployed. Tax incentive programs have included a special Work Incentive (WIN) credit, a New Jobs (general jobs) Tax Credit, and a Targeted Jobs Tax Credit. In particular, jobs tax credits can serve to be positive job creation and price reduction mechanisms.[56]

C. THE NEED FOR SEED CAPITAL

In order for a coordinated plan of economic development to work, adequate financing must be made available to firms locating in the distressed area. This can be accomplished by providing the firm or investors with seed capital (external methods of financing such as loans or grants) or with viable tax incentives.

Tax reduction measures are an important way of increasing the internal cash flow of a profitable firm. Such incentives can and will encourage firms to locate and expand in an enterprise zone. However, tax incentives will not greatly benefit a small business which is in its start-up stage or early years of development. Thus, a start up business must often look for other ways to meet its capital formation needs.[57]

Securing adequate financing is generally considered to be a more severe problem among new business owners than more established ones.[58] In addition to being able to utilize tax incentives to a greater degree, more established companies can rely on a greater array of alternative sources of capital including the securities and commercial paper markets. On the other hand, a high proportion of financing for new businesses comes either from personal savings or from direct loans made by friends or relatives.[59]

With respect to commercial financing, high fluctuating interest rates often have a greater impact on the profitability of smaller firms than on their larger counterparts. In particular, the acceleration in the prime lending rate of recent years has been found to be a major factor contributing to the increase in business bankruptcies.[60]

One way of overcoming the impact of high interest rates is to provide low cost seed (or working) capital loans to new business ventures starting up in distressed areas. The Baltimore Economic Development Corporation and others contend that the direct loan and loan guarantee programs of the Small Business Administration and the Economic Development Administration would effectively accomplish this task and thus, should be coordinated with the enterprise zone concept.[61] Further, another economic development tool which has provided effective low cost seed capital are the Urban Development Action Grants.[62] The use of tax exempt small issue industrial development bonds is another important mechanism for meeting the working capital needs of business.

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[56] For a further discussion of jobs tax credits, see Section D of this chapter on viable tax incentives and Chapter IV on skilled labor shortages.

[57] Chairman Nowak, Opening Statement, Sept. 15, 1981.

[58] "Small Business in America's Cities: Preliminary Report," by Thomas C. Dandridge and William J. Dennis, Jr., National Federation of Independent Business, Nov. 1981, p. 11.

[59] Stuart Butler, for The Heritage Foundation, Hearing Record, Sept. 22, 1981.

[60] Report on Federal Monetary Policy and Its Impact on Small Business, Committee on Small Business, Sept. 30, 1980, p. 44.

[61] David O. Hash, Baltimore Economic Development Corporation, Hearing Record, Sept. 22, 1981.

[62] As stated in Table III of this report, the UDAG program will be folded into the Community Development Block Grant Program and thus it will have no funding of its own beginning with fiscal year 1982.

An example of how these programs have been utilized to spur economic development is the conversion of a cluster of grain silos in Akron, Ohio. In this situation, a $1 million UDAG was combined with funds from private investors for the construction of a $15 million hotel, dining, and shopping complex.[63]

Another mechanism for providing working or seed capital is use of venture capital programs such as the Small Business Investment Company (SBIC) program of the SBA. Since its establishment in 1958, the program has provided equity and investment capital to over 40,000 companies. One study indicates that the SBIC program has been extremely cost-effective in that in 1979, SBICs generated $441.3 million in Federal tax revenues at a cost to the Federal Government of $4 million.[64] The State of Connecticut has recognized the utility of programs of this type through its institution of a $1 million venture capital revolving fund.[65]

Other ways of providing seed capital to a start-up business include providing incentives to financial institutions and banks which could serve to lower the cost of capital to the borrower.[66] The American Planning Association suggests that one way to accomplish this is to exempt from taxation a portion of the interest a bank earns on loans it makes to specified businesses.[67]

Derek "Pete" Hansen, formerly Deputy Chief Superintendent of Banks in California (from 1975 to 1978), would like to see the establishment of a Loan Loss Reserve Program to encourage banks to make moderately risky loans to small- and medium-sized businesses.[68] Under the Loan Loss Reserve Program, the borrower and lender would agree to a reasonable loss reserve rate for the loan and each would then contribute one-third of the loss reserve. The Government would be required to contribute an additional amount equal to the business' contribution. Hansen believes that this would provide a substantial increase in investment capital at a fraction of the cost of similar Government programs.

The Northeast-Midwest Institute considers the Nation's pension plans as being an excellent vehicle for promoting economic develop-

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[63] 1981 Guide to Federal Resources for Economic Development, Northeast-Midwest Institute, p. 47.

[64] Cost-Benefit Study of the Small Business Investment Company Program, prepared for the National Association of Small Business Investment Companies, October 1981, by Deloitte, Haskins and Sells.

[65] Carl Holman, National Urban Coalition, Hearing Record, Sept. 22, 1981.

[66] Providing incentives to financial institutions in this manner is a form of credit allocation. More specifically, it is a recommendation that credit should be allocated by banks to a preferred class of borrowers. Credit allocation suggestions have been criticized by the Federal Reserve Board and others as being potentially difficult to administer and as a disruption to the orderly process of the financial markets.

For the same policy reasons, tax professionals contend that the Internal Revenue Code should only be utilized for raising revenues to run the government and not as a tool for implementing social policy. However, the code is full of provisions giving special or selective tax relief for certain groups of taxpayers. Thus, providing financial institutions with an exemption from taxation of a portion of the interest it earns has similarly valid social rationale.

For a further discussion of credit allocation and its impact on borrowing, see Report on Federal Monetary Policy, p. 37. See also: "Tax Expenditures: Current Issues and Five-Year Budget Projections for Fiscal Years 1982–1986," Congressional Budget Office, September 1981.

[67] Vernon George, American Planning Association, Hearing Record, Sept. 22, 1981.

[68] Derek "Pete" Hansen, "Revitalizing the American Economy Through Entrepreneurial Expansion—A Program Policy Guideline (Part II)" from Expanding the Opportunity to Produce: Revitalizing the American Economy Through New Enterprise Development, A Policy Reader, edited by Friedman and Schweke, p. 217.

ment in distressed areas.[69] In its estimation, there are about 500,000 private pension plans and about 6,600 governmental plans holding more than $550 billion in total assets. The Labor Department estimates that the holdings of all pension plans could reach $3 trillion by 1995.[70]

Utilizing pension plans for economic development and revitalization may, however, turn out to be a difficult task. The most direct approach for utilizing pension funds involves a loosening of the so-called prudent man rules under ERISA. This involves a clarification of the type of investments which would be considered reasonable and prudent for a pension fund trustee to invest in. In this way, a trustee would have more latitude to make what are sometimes considered to be riskier investments.

Although tax incentives would not greatly contribute to the capital formation needs of a firm with little or no profits, the leasing provisions of the Economic Recovery Tax Act of 1981 and refundable investment tax credits could potentially help to resolve the working capital needs of such firms.[71] The rationale for these types of tax provisions will be discussed in greater detail in the next section.

D. VIABLE TAX INCENTIVES

Tax incentives are an important element in the dynamics of job creation and revitalization for distressed areas. In particular, targeted tax incentives are an important supplement to the human capital, infrastructure, and seed capital needs of local communities.

Beneficial tax provisions help smaller companies overcome the high cost of financing.[72] More specifically, by utilizing tax credits and deductions, the firm can increase its cash flow internally, as opposed to borrowing externally from banks and other financial institutions.[73] Helping smaller firms in this manner is also significant because of the limited access such firms have to the securities and commercial paper markets.[74]

Any program of incentives for revitalization should be balanced in scope and should address the unique needs of each industrial sector. This is necessary due to the fact that many tax incentives do not have the same impact on the cash flow of all businesses equally. For example, labor intensive wholesalers and retailers do not benefit in the same manner and to the same degree from an accelerated depreciation provision that a capital intensive manufacturer would.[75] Thus, a varying array of incentives should be provided in order to foster economic development in an enterprise zone.

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[69] "Pension Power for Economic Development," Northeast-Midwest Institute, Washington, D.C., p. 1.
[70] Ibid., p. 1.
[71] Under the Internal Revenue Code, there is currently no provision for a refundable investment tax credit. If investment advisers develop ways to help small business utilize the leasing transactions of the Economic Recovery Tax Act, these leasing rules could ultimately serve to function like a refundable investment tax credit.
[72] For a discussion of the job creation abilities of small business, see Chapter I of this report.
[73] Report on Capital Formation and Retention, Committee on Small Business, U.S. House of Representatives, Jan. 10, 1980, p. 3.
[74] See report on Federal Monetary Policy and its Impact on Small Business, op. cit., p. 3.
[75] Report on Capital Formation and Retention, op. cit., p. 5.

One provision which would help to spur employment by businesses locating in distressed areas is a jobs tax credit. Labor intensive small businesses would particularly benefit from this type of capital formation mechanism.

Under present tax law, the Targeted Jobs Tax Credit (TJTC) is available to firms which hire individuals from one or more specified economically disadvantaged groups.[76] For each qualified employee hired, a firm can receive a credit worth as much as $4,500 over a 2-year period.

TJTC has, however, been criticized by Small Business United and others as not being useful because it is considered "too detailed and complex to deal with." [77] Part of the complexity revolves around the employee certification requirement of TJTC.[78] Despite its perceived complexity, the credit, nevertheless is a constructive incentive or inducement for hiring the economically disadvantaged. Flexibility could be added to the credit by including residents of distressed areas as one of the eligible targeted groups. This could serve to loosen up the present rigid poverty based individual eligibility criteria and thus, allow participation by all unemployed residents in distressed areas.[79]

For capital intensive small businesses, accelerated depreciation and investment tax credit reform would greatly aid economic development in distressed areas. This would greatly spur productivity among manufacturers, but would not appreciably aid labor intensive businesses such as retailers or wholesalers.[80] Any depreciation measure designed for businesses locating in distressed areas must have a significantly better writeoff period than that provided for under the Economic Recovery Tax Act of 1981.[81] Under ERTA, businesses generally depreciate machinery and equipment over 3, 5, 10, or 15 years.

One provision of ERTA which could potentially be utilized for a tax incentive program for distressed areas is the direct expensing allow-

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[76] In specific, an individual is a member of a targeted group for purposes of TJTC if that individual is:
(1) A vocational rehabilitation referral;
(2) An economically disadvantaged youth;
(3) An economically disadvantaged Vietnam-era veteran;
(4) A Supplemental Security Income (SSI) recipient;
(5) A general assistance recipient;
(6) A youth participating in a cooperative education program; or
(7) An economically disadvantaged ex-convict.

[77] Stephen R. Dooley, Small Business United, Hearing Record, Sept. 15, 1981.

[78] For an employer to receive the credit, the employee must be certified as a member of a targeted group by a designated local agency which is often a State employment service. Prior to the Economic Recovery Tax Act of 1981, an employer could receive the credit even if the employee was certified retroactively. This was criticized because some employers apparently did not hire members of targeted groups for the purpose of receiving the credit. Accordingly, these same employers were criticized as not discovering the availability of TJTC until after the employee had actually been hired.

In order to eliminate this perceived abuse, ERTA provides that an employer cannot generally claim the credit unless the employee was certified before he began work or a written request for certification had been made prior to his first day of employment.

This new certification requirement of ERTA may end up impeding the use of TJTC. Obviously, a certain amount of lead time is necessary between when the employee becomes certified by the local agency and when he can actually start work. For those businesses that have immediate staffing requirements, they may not have the luxury of granting such lead time to a member of a targeted group. Under the law, prior to ERTA, these same businesses would be able to hire and employ an economically disadvantaged individual without his having been certified initially.

[79] See S. 1797, introduced by Senators Dole and Weicker, which utilizes an area based poverty test for Title VII of CETA, as opposed to an individual eligibility based poverty test.

[80] Report on Capital Formation and Retention, op. cit., p. 5.

[81] Lawrence Revzan, Director of Economic Studies and Seymour Jones, Partner, Coopers & Lybrand, Hearing Record, Sept. 15, 1981.

ance.[82] By 1985, ERTA will permit businesses to expense the first $10,000 of personal property. For purposes of distressed areas, the direct expensing allowance could be raised significantly above the $10,000 level.

Investment tax credit reform is particularly beneficial to small business as it increases the immediate cash flow of the firm. In addition, the investment tax credit generally helps the after-tax rate of return on assets for those small businesses in the lower tax brackets. Thus, an investment tax credit of 2 to 5 percent, which is tied to the expensing provision discussed above could serve as a strong inducement for small business to locate in an enterprise zone.

The current tax law discriminates against the small business person who purchases used equipment. A limit of $125,000 ($150,000 starting in 1985) is placed on the amount of used property which can qualify for the investment tax credit in any tax year.[83] Raising the limit substantially above the $125,000 level (or even eliminating the limit) would recognize the limited amount of capital small businesses have at their disposal. Many small businesses often cannot afford the cost of new machinery and thus become dependent on the purchase of used equipment. Moreover, raising the limit would take into account the true cost of starting a new business. Testimony presented at 1979 subcommittee hearings indicated that it would then cost approximately $500,000 to start a small machine shop which employed 10 people.[84]

Other incentives which could greatly aid businesses locating in distressed areas are refundable investment tax credits. Coopers and Lybrand considered refundable credits important because of the operating cost savings they provide owner-entrepreneurs. In particular, such credits are important to the encouragement of startup businesses in distressed areas. These are firms that generally do not have taxable income during the initial operating years. This type of provision would enable firms to receive the full benefit of the investment tax credit whether they have taxable income or not. A refundable credit in conjunction with a jobs tax credit is also considered as being effective in terms of spurring business expansion.[85]

To the extent a refundable investment credit is not politically feasible, the leasing provisions of the Economic Recovery Tax Act may ultimately accomplish the same objective as a refundable credit. If properly structured, the leasing provisions will in effect permit a business to transfer to a lessor the depreciation and investment tax credit benefits of equipment placed in service by that business. In theory, this would enable a small business to utilize assets which they could not afford to buy outright and which it might otherwise have trouble financing from outside sources.

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[82] In general, based on a present value analysis, the 15–10–5–3 depreciation allowances methods increase a business' cash flow to a greater degree than the direct expensing method would under ERTA. The reason for this situation is that a business electing the direct expensing allowance, does not receive any investment tax credit. On the other hand, a business utilizing the 15–10–5–3 depreciation method would generally receive a 6- or 10-percent investment tax credit on the purchase of a piece of equipment.

Moreover, in the absence of granting an investment tax credit in conjunction with the direct expensing allowance, the primary benefit of the direct expensing allowance to small business is its simplicity.

[83] Economic Recovery Tax Act of 1981 raised the limit on the amount of used equipment eligible for the investment tax credit from $100,000 to $125,000 beginning in 1981. The limit will be raised further to $150,000 beginning in 1985 under the act.

[84] Report on Capital Formation and Retention, op. cit., p. 11.

[85] Coopers & Lybrand, Hearing Record, Sept. 15, 1981.

Another proposed solution to the capital formation problems of small business is the establishment of a small business participating loan (SBPL) mechanism.[86] This would provide the lender with tax incentives in return for making a loan to a small business at a negotiated (below market) interest rate. The SBPL, while not a security, contains the same tax benefits of section 1244 preferred stock.

Older urban centers have many buildings which, though they may be in a state of disrepair, are basically sound structures. To encourage rehabilitation of such structures, the law provides for a 15-percent tax credit on the rehabilitation of nonresidential buildings at least 30 years old and a 20-percent credit on those that are at least 40 years old. In specific, the National Council of Urban Economic Development (CUED), considers rehabilitation tax credits as being an important incentive for an enterprise zone program. However, CUED contends that any rehabilitation credit provided for use in enterprise zones or job expansion areas should be significantly greater than the 15- or 20-percent credit provided businesses generally.[87]

Vernon George of the American Planning Association believes that incentives should be extended to investors providing debt capital to small businesses. This could be accomplished through the provision of a tax credit to offset a portion of the interest earned by a financial institution or lender on a loan made to a business locating in a distressed area.[88] Stuart Butler considers this type of incentive important because of the fact it enables the small businessman to obtain necessary working capital without selling out a portion of his business.[89]

A provision which is particularly important as an inducement to increasing the productivity of workers is the Employee Stock Ownership Plan (ESOP). In commenting on ESOPs, Stuart Butler of the Heritage Foundation stated: ". . . I agree that this is an extremely important element, particularly when you're looking at highly depressed communities, and we also find that not only when the employees themselves have a stake in the development of the business, but when the community as such has a stake, that you find people prepared to start doing things that otherwise they feel no particular reason to do." [90]

The Economic Recovery Tax Act provides a payroll based credit for contributions made to an ESOP beginning in 1982. (This terminates the investment tax credit on contributions made to plans in years prior to 1982.) When fully phased in during 1985, the new payroll credit will be limited to 0.75 percent of compensation paid to employees under the plan. In order to encourage the establishment of ESOP plans by businesses locating in distressed areas, the credit for those businesses should be substantially greater than the general three-fourths of 1 percent payroll based credit.

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[86] See H.R. 5078, Small Business Investment Incentives Act, introduced by Rep. Dan Marriott and others. A conceptually similar bill, H.R. 4015, was introduced by Rep. Dennis Eckart.

[87] Charles F. Rosenow for National Council of Urban Economic Development, Hearing Record, Sept. 22, 1981.

[88] Vernon George, American Planning Association, Hearing Record, Sept. 22, 1981. For a further discussion of this, see footnote 66 regarding credit allocation incentives.

[89] Stuart Butler, Heritage Foundation, Hearing Record, Sept. 22, 1981. See footnote 66 for a discussion of credit allocation proposals.

[90] Ibid., p. 159.

Chapter III.—Tax-Exempt Small Issue Industrial Development Bonds

In view of the widespread criticism concerning the abuses of the Industrial Development Bond program, and the Administration's proposed plan to severely curtail or eliminate tax exempt bonds, the future of IDBs appears threatened. Critics have focused on the use of IDB financing for fast food chains, large retail outlets, restaurants, and other commercial uses. In addition, opponents of the program have pointed to the financial drain on the United States Treasury resulting from the tax exempt nature of these bonds.

Supporters of the IDB program, on the other hand, emphasize that the abuses are only isolated incidents and that the Federal revenue loss is minimal. Moreover, the hearing record indicates that many critics fail to recognize that State and local economic development officials regard IDBs as an important tool for stimulating capital investment and employment at a time when Federal assistance is being sharply reduced or eliminated.[91] Supporters also stress the importance of small issue IDBs as a source of low cost capital to small firms which are particularly sensitive to today's high and volatile interest rates.

After a broad definition and a brief historical background, this section of the report will attempt to analyze some of the more common criticisms of small issue IDBs and examine some of the benefits of small issue IDBs as they impact on the small business community.

Generally a business in need of capital for a startup or expansion program will discuss with a local development agency the possibility of obtaining capital. In a typical situation, once the business plan is approved, the State or local issuing authority will sell the bond to a private investor. The proceeds from the sale are generally used by the issuing authority to purchase or construct a building or to purchase equipment. It should be noted that Federal tax law requires only that the proceeds from the sale of the small issue IDB be used for the acquisition, construction, reconstruction, or improvement of land or property of a character subject to an allowance for depreciation or to redeem a prior issue.[92] The tax exemption on the interest income in the hands of the bondholder "allows the bonds to be sold at a lower interest rate than would otherwise be possible, and therefore the user reduces his cost of financing new investment.[93]

Initially, tax exempt IDBs were used primarily in the South to encourage industrial development in rural areas. In the 1960's the use of tax exempt IDBs spread to the North and Midwest as they were recognized by State and local development agencies as an excellent vehicle for creating jobs and preserving the employment base of major

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[91] Testimony of George W. Cregg, Sr., for New York State Economic Development Council, Hearing Record, Oct. 14, 1981.
[92] Internal Revenue Code, Sec. 103(b)(6)(A)(i), (ii) (1981).
[93] Testimony of Robert Staley, President, National Committee on Small Issue Industrial Development Bonds, before House Committee on Ways and Means, Aug. 20, 1980, p. 9.

urban centers.[94] As previously stated, 47 States have presently implemented some type of IDB program.[95]

In 1968, responding to the increased volume of IDB sales, Congress enacted legislation limiting the use of tax exempt bonds.[96] In general, the act removed the tax exemption for IDBs with some limited exceptions, among which were "small issue" IDBs. The purpose of small issue IDBs was to allow communities to provide assistance to small businesses seeking to locate in the community.[97] In subsequent amendments to the 1968 legislation, Congress a few months later placed a $5 million limit on the size of each tax exempt small issue IDB. In addition, if the amount of the bond exceeded $1 million, the total capital expenditures of the borrowing firm in the jurisdiction of the issuing authority could not exceed $5 million for the 3 years prior and 3 years after the issuance of the bond.

Responding to the impact of inflation on the cost of capital assets, Congress raised the capital expenditures limit on "small issue" IDBs in 1978, from $5 million to $10 million. In addition, if a project were also financed with Urban Development Action Grant (UDAG) funds, the capital expenditure ceiling was increased to $20 million. However, it should be noted that the tax exempt IDB itself could not exceed $10 million with respect to such UDAG funded projects.[98]

One of the major sources of criticism of small issue IDBs is the present and projected Federal revenue loss which results from these tax exempt bonds. A recent Congressional Budget Office (CBO) study [99] estimates that Federal revenue losses from small issue IDBs will amount to approximately $1 billion in fiscal year 1981, and rise to between $2.9 and $4.4 billion in fiscal year 1986, depending on the volume of IDB sales. The chart below gives an annual breakdown of the estimated Federal revenue loss:

SMALL ISSUE IRB SALES AND ASSOCIATED FISCAL YEAR REVENUE LOSSES, CALENDAR YEARS 1979–86

[In millions of dollars]

	New issues	IRB retirements	Cumulative amount		Fiscal year reveune loss
			Net outstanding at year end	Average amount outstanding in calendar year	
1979	7,100	100	24,900	21,450	493
1980	8,400	200	33,100	29,050	721
1981	9,200	250	42,050	37,625	1,038
1982	10,100	250	51,900	47,025	1,393
1983	11,100	250	62,750	57,375	1,763
1984	12,200	500	74,450	68,650	2,144
1985	13,400	350	87,500	81,025	2,516
1986	14,700	500	101,700	94,650	2,880

Source: Congressional Budget Office.

[94] Testimony of Hon. Christopher S. Bond, Governor of Missouri, on "Small Issue Industrial Development Bonds and Small Business," before Subcommittee on Urban and Rural Economic Development, Senate Select Committee on Small Business, Oct. 5, 1981.
[95] "Small Issue Industrial Revenue Bonds," study by Congressional Budget Office, April 1981, p. xii.
[96] Revenues Expenditure and Control Act of 1968, Public Law 90–364, June 28, 1968.
[97] Statement by Congressman Wilbur Mills on "The Purpose of Legislation," Congressional Record, House of Representatives, Oct. 10, 1968, p. 30603.
[98] Internal Revenue Code, Sec. 103; also see generally House Committee on Ways and Means Subcommittee on Oversight Report on Tax Exempt "Small Issue" Industrial Revenue Bonds, July 9, 1981, p. 3.
[99] "Small Issue" Industrial Revenue Bonds, a Congressional Budget Office study, April 1981.

The CBO revenue loss estimates have become a focal point of criticism regarding small issue IDB financing. In view of President Reagan's September 24, 1981 speech which included IDBs in his "revenue enhancement" possibilities, these estimates may prove to be the catalyst for eliminating the tax exempt status of these bonds. It is important, therefore to scrutinize these figures to determine if they, in fact, represent a true picture of the impact of small issues on Federal revenues.

Haven Pell, a partner with Kutak, Rock and Huie, pointed out that in the opinion of some experts, the CBO revenue loss estimates are grossly inflated.[100] For example, Dr. Robert Kormendi, an expert in municipal finance at the University of Chicago, contends that the actual loss to the Treasury is only one-sixth of that estimated by the CBO study.[101]

According to Kormendi's estimate, the Federal revenue loss would be $54.8 million in fiscal year 1982 and only $54.0 million in fiscal year 1986.[102] This contention that the revenue loss estimates are overstated is illustrated by Kormendi as follows:[103]

> The cost of IDB financing in foregone Federal tax revenues is on the order of $4 to $6 million for each billion dollars of new IDBs when taxable interest rates are in the range of 10 percent to 14 percent. These estimates contrast sharply with the CBOs recent estimates of $30 to $40 million for each billion dollars of bonds.
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> These revenue loss estimates imply that each dollar of interest saving for IDB borrowers costs the U.S. Treasury approximately 15 cents in Federal tax revenues. Thus IDBs are more than six times as efficient as direct subsidies which cost the U.S. Treasury one dollar for each dollar of benefit. This conclusion contrasts sharply with the Treasury's claim that each new dollar of interest saving for IDB borrowers costs the U.S. Treasury $1.33 in Federal tax revenues.

Another factor that may distort the CBO revenue loss estimate is the failure of CBO to take into account the Federal revenue gain generated by an increase in economic activity.[104] The overall increase in business investment and expansion generates corporate profits and creates new jobs which in turn leads to an increase in corporate and payroll taxes. The new economic activity may even lead to a reduction in Federal spending for unemployment compensation, food stamps, and public assistance.[105] In addition, Robert Staley, president of the National Association of Small Issue Industrial Revenue Bonds contends that jobs created in the expanded plant results in an associated increase in jobs and services throughout the community in which the business is located.[106]

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[100] Statement by Haven N. B. Pell, Kutak, Rock and Huie, submitted for the Subcommittee Hearing Record, Oct. 14, 1981.
[101] Ibid., p. 18.
[102] "Small Issue" Industrial Development Bonds. Hearing Record on Subcommittee on Oversight of the Committee on Ways and Means, Apr. 8, 9, 10, 1981, p. 211.
[103] Ibid., p. 210.
[104] Report on Tax Exempt "Small Issue" Industrial Revenue Bonds, Subcommittee on Oversight of the Committee on Ways and Means, July 9, 1981, p. 215.
[105] Ibid., p. 5. See also CBO study as described in footnote 95, op. cit., p. 43.
[106] Testimony of Robert Staley, president, National Committee on Small Issue Industrial Development Bonds, before House Committee on Ways and Means, Aug. 20, 1980, p. 14.

Robert Vaughan, Deputy Director of the Office of Development Planning for the State of New York, reiterated the revenue raising potential of IDB financing by stating that:

> Industrial Revenue bonds do not "cost" the Treasury the billions of dollars that are claimed. The administration itself has forcefully argued that the cut in the effective corporate tax rate through Accelerated Cost Recovery would generate increased tax revenues through the induced investment. An exactly analogous argument can be made for IDBs.[107]

In a recent study on small-issue IDBs prepared by a private consultant, Dr. Norman Ture, presently the Under Secretary of the Treasury for Economic and Tax Affairs, pointed out that raising the capital expenditure limitation on small issue IDBs would not create a drain on Federal revenues but, in fact, would result in a net gain in tax revenue for the Federal Government. Dr. Ture explains his projection by stating that:

> IDBs are productive instruments for promoting economic development by making saving and investment more attractive to individuals and businesses. Their use results in overall gains in capital formation, employment, and output, rather than merely changes in the location of economic activity. The magnitudes of these results are quite modest, primarily because the capital expenditure limitation severely restricts the projects eligible for IDB financing. Increasing the capital expenditure limit above the present $10 million would enlarge the inventory of eligible projects and expand total capital outlays, employment, and real GNP. The resulting expansion of tax bases—individual and corporate income and payroll taxes—would generate net gains in tax revenues for the Federal Government and for the State and local governments of the issuing jurisdictions.[108]

The other major criticism of small issue IDBs is that the tax exempt bonds are being utilized to finance a wide variety of commercial projects often benefitting extremely large corporations. Critics complain that the use of small issue IDBs for commercial projects is, in effect, subsidizing the business development of large corporations, thereby frustrating the original legislative intent of small issue IDB legislation, which was to enable communities to assist small businesses.[109] The most common examples of these commercial use "abuses" are the often publicized IDB financing of projects such as large retail chains, real estate development projects, and restaurant facilities.

On the other hand, supporters claim that the attacks on small issue IDBs focus on the few sensational "abuses" with respect to commercial

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[107] Testimony of Robert Vaughan on behalf of Governor Hugh L. Carey of New York, and the Coalition of North Eastern Governors, before the U.S. Department of Treasury, Nov. 12, 1981, p. 4.

[108] "The Economic Federal Revenue Effects of Changes in the Small Issue Industrial Development Bond Provisions," a report prepared for the National Committee on Small Issue Industrial Development Bonds by Norman Ture, Inc. (1980), pp. 11 and 12.

[109] Statement by Congressman Wilbur Mills on "The Purpose of Legislation," Congressional Record, House of Representatives, Oct. 10, 1968, p. 30603.

projects and state that the vast majority of small issue IDBs provide an important source of capital to small businesses which would otherwise be unaffordable or unavailable.[110]

According to the CBO study, the critics' fears that small issue IDBs are being used to finance large business is unwarranted. In an attempt to determine the national patterns of small issue use, CBO did a random sample test, the results of which indicated that IDB users tend to be closely held corporations and that less than 10 percent of the firms using small issues were listed on any of the regional stock exchanges.[111] The study indicates that:

> "The $10 million capital expenditure limit effectively keeps most large corporations from making much use of small issues . . ." [112]

A recent report of the House Ways and Means Subcommittee on Oversight also addressed the "abuses" of small issues. The report stated that several witnesses at the April 1981 hearings felt that "abuses" of the (IDB) program have been relatively few and overly publicized. They claimed that a "high level of responsibility" in monitoring the program is the general rule among State and local governments.[113]

The witnesses at our September 22 hearing highlighted the "high level of responsibility" in monitoring IDB programs by State and local authorities. William Donohue, Director of the Erie County Industrial Development Agency (ECIDA), testified that ECIDA's promotion of small issue IDBs is tied to an overall strategy for economic development and while IDB use is allowed for commercial projects, the agency has self-imposed strict limitations on their use. He stated that: "The policy that we have adopted with the board is that we will only do commercial bonds where the project is large enough to have a spillover effect. Generally, it is the first project in a given area.[114]

An additional example of local responsibility was presented by Myron Louik, Assistant Executive Director of the City of Chicago Economic Development Council, who testified that until recently the City of Chicago refused to issue IDBs for commercial projects unless the project would avoid a company dislocation caused by public action or aid a minority enterprise." [115] Today the City of Chicago will allow commercial projects to be financed by IDBs but only in neighborhoods which are considered to be distressed.[116] Mr. Louik also pointed out that "an overwhelming majority of our projects are for small businessmen." [117]

While State and local development officials may differ on the appropriate use of small issue IDBs, especially with regard to commercial use, most share the general view that small issue industrial

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[110] Haven N. B. Pell, Kutak, Rock and Huie, op. cit. p. 7.
[111] Congressional Budget Office, study, op. cit., p. 21.
[112] Ibid., p. 23. See also Kutak, Rock and Huie, op. cit., p. 9.
[113] Report on tax exempt "Small Issue" IRBs, Committee on Ways and Means, July 9, 1981. op. cit., p. 9.
[114] William J. Donohue, Executive Director, Erie County Industrial Development Agency, (New York) Hearing Record, Oct. 14, 1981.
[115] Myron D. Louik, Assistant Executive Director, City of Chicago Economic Development Council, Hearing Record, Oct. 14, 1981.
[116] Ibid.
[117] Ibid.

development bonds should be used by smaller industrial enterprises for financing plant and equipment.[118]

A responsibly monitored IDB program, therefore, can be an effective economic development tool which directly responds to the critical economic problems of declining productivity, lack of capital investment, unemployment and the deterioration of our urban centers. To illustrate this proposition, Governor Bond of Missouri recently stated that:

> IRBs are an important State and local government financing tool for capital formation and economic development. When virtually all Federal economic development programs are slated for termination and many have been eliminated already, IRBs become about the only tool available for financing business development in economically underdeveloped or depressed communities. IRBs are likely to be one of the very few methods by which we can direct scarce credit to small firms suffering from tight money and distressed areas experiencing severe capital shortages." [119]

Proponents of the IDB program have consistently praised small issue IDBs as a cost effective method to create jobs especially in the small business community.[120] For example, Haven Pell in his record statement claims that:

> In addition to the importance of IDBs in providing low-cost loans to business, the [IDB] program is one of the most efficient means for the creation of new job opportunities. Even if you use CBO revenue loss estimates to determine the Federal "cost" for each job created or saved by an industrial development bond, the actual Federal revenue loss for new jobs created by IDB-financed projects would represent a small fraction of the cost of a CETA program job. The price of an IDB job even falls well toward the low end of the cost of the targeted income jobs credit, which is estimated to range between $900 and $2,580 per year. Unlike many job creation efforts, IDBs generally create permanent jobs and permanent additions to the tax base through the construction of new facilities.[121]

According to the most recent CBO statistics, if the present law governing IDBs remains in effect, IDB sales in 1986 will generate an increase of $4.28 billion in Gross National Product, creating an estimated $2.2 billion in wages and salaries.[122] Robert Patterson, Executive Director of the Massachusetts Industrial Finance Agency, claims that these increased wages and salaries will provide enough money to employ 150,000 people at $15,000 a year.[123]

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[118] "Industrial Revenue Bonds, a Cost-Benefit Assessment," by Robert E. Patterson, Economic Development Commentary, vol. 5, July 1981, p. 5.

[119] Testimony by the Honorable Christopher Bond, Governor of Missouri, to the Senate Select Committee on Small Business, Subcommittee on Urban and Rural Economic Development, Oct. 5, 1981, p. 4.

[120] It has already been established that small business creates most of the new jobs and the vast majority of small issues are used by small business.

[121] Haven Pell, Kutak, Rock and Huie, op. cit., p. 15.

[122] Congressional Budget Office study, op. cit., p. 96.

[123] Patterson, op. cit., p. 4.

Another controversy surrounding small issue IDBs is the August 24, 1981, Department of Treasury Revenue Ruling 81-216. The ruling holds that IDBs issued (by a State or local agency) in multiples of $1 million may not qualify as exempt small issues. The ruling caused a tremendous reaction from State and local officials, the Congress, and the small business community. Mr. Pell noted in his October 14 testimony that:

> That ruling, as most of you are now aware, terminated the programs which 32 States now operate to provide low-cost loans to small businesses and farms. While IRS later announced that it would be flexible about applying the new ruling to projects in the pipeline, and even later was forced to withdraw the ruling while Treasury sent up a proposed regulation in its place, the precipitous announcement sent a shock wave throughout the country. The governors of all 50 States, through their four regional governors' associations, have called for the withdrawal of the ruling, and I understand that a number of Members of Congress and Senators have signed letters to the President asking for its postponement or withdrawal as well.[124]

In addition, there have been several bills introduced in both the House and the Senate which are aimed at postponing or preventing the implementation of this revenue ruling.

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[124] Haven Pell, Kutak, Rock and Huie, op. cit., p. 20.

Chapter IV.—The Need To Resolve the Skilled Labor Shortage Problem

The Nation's unemployment rate is rising steadily and the President's economic advisers have predicted that it could reach as high as 9 percent during the current recession.[125] These jobless rate statistics demonstrate a strange dichotomy in our country's employment base when measured against the acute shortage of skilled workers, due in a large degree to the rise in automation and technology. Employers, especially small business persons, often do not have the time or the capital to train employees to fill this human capital void. These critical shortages have contributed to the country's declining productivity, may undermine our competitive position in world trade, and may threaten our national defense capabilities.

Senator Lloyd Bentsen, Vice Chairman of the Subcommittee on Economic Goals and Intergovernmental Policy of the Joint Economic Committee, recently focused on the problem when he stated: "According to the most recent Labor Department data, our Nation faces a shortage of 2.5 million skilled workers this decade." [126]

Professor Karl Willenbrock illustrated this skilled labor shortage problem in his recent congressional testimony when he pointed out that the electronics industry, "one of America's most economically important high technology industries" and a "part of the information technology sector which alone accounts for 46 percent of the GNP" is suffering from a critical shortage of trained technicians.[127] The American Electronics Association conducted a national survey of its members which projected a need for over 250,000 skilled workers in the technical and paraprofessional fields over the next 5 years. Specifically, Dr. Willenbrock stated that:

> Extrapolating the collected data to the entire electronics industry and focusing on the EE/CS areas shows a projected demand for some 199,000 new electrical (EE) and computer science (CS) engineers by 1985. However, the projections through 1985 for degrees to be awarded in these two fields from *all* U.S. colleges and universities indicate some 70,000 new BS/EE and BS/CS graduates. The shortfall between supply and demand of BS/EE and CS engineers projects to 129,000 or 25,000 annually. To meet just the needs of electronics industry alone, the engineering schools would have to triple their output of EE and CS engineers each year for

[125] "Jobless Rate 8.4 percent as Slump Deepens, Level Highest in 6 Years," by Frank Swaboda, Washington Post, Dec. 5, 1981, p. 1.

[126] Opening statement, Vice Chairman Lloyd Bentsen, Hearings on Skilled Labor Shortages, Subcommittee on Economic Goals and Intergovernmental Policy, Joint Economic Committee, Nov. 3, 1981.

[127] Statement of Dr. Karl Willenbrock on behalf of the American Electronic Association, before the Subcommittee on Economic Goals and Intergovernmental Policy, Joint Economic Committee, Nov. 3, 1981, p. 2.

> the next five years. This statement does not take into account the needs of other engineering-intensive industries.[128]

The shortage of technically skilled workers was also pointed out by Sheldon Weinig, who said that there is "an extraordinary shortage of U.S. citizens working toward graduate degrees in engineering and technical science.[129] To illustrate this Mr. Weinig stated: "Let's put some numbers to this situation. Approximately 50 percent of all graduate students in our technical graduate student body are foreign. But, a real eye opener is that a number of universities have reported that nearly 80 percent of all new faculty in engineering disciplines are foreign." [130]

The need to teach technical skills to individuals is demonstrated by the following Labor Department statistics [131] on the projected rate of growth in selected technical paraprofessional occupations:

MONTHLY LABOR REVIEW—AUGUST 1981

U.S. Department of Labor

Bureau of Labor Statistics

Occupation:	*Percent growth in employment 1978–1990*
Data processing machine mechanics	147.6
Computer systems analysts	107.8
Computer operators	87.9
Office machine and cash register servicers	80.8
Computer programmers	73.6

Another industry facing a critical skilled labor shortage is the machinist trade. The National Tooling and Machining Association conducted an industry-based survey in 1980 which indicated there is presently a need for 60,000 skilled workers in this trade and a projected demand for an additional 250,000 qualified workers by 1985.[132] Mr. Harold Corner, President of the N.T.M.A., testifying before the subcommittee, attributed this shortage to the "economic factors which make the cost of training the highly skilled increasingly unaffordable to small companies.[133] He stated:

> The cost of training the highly skilled workers for this industry is extremely high. The cost includes a capital investment of between $40,000 and $60,000 per worker and four years of time while the worker completes the apprenticeship.
>
> Most companies in small business industries are highly competitive. The relatively modest profits, small size, and lack of specialization do not afford the luxury of formal training programs.[134]

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[128] Ibid., p. 3.
[129] Statement of Sheldon Weinig on behalf of the American Business Conference before the Subcommittee on Economic Goals and Intergovernmental Policy, Joint Economic Committee, Nov. 3, 1981, p. 3.
[130] Ibid., p. 3.
[131] "Occupational Employment Growth Through 1990," by Max L. Carey, Monthly Labor Review, U.S. Department of Labor, Bureau of Labor Statistics, August 1981, p. 49.
[132] National Tooling and Machining Association, Hearing Record, Sept. 15, 1981.
[133] Ibid.
[134] Ibid.

These deficiencies in the quality of our work force and the lack of necessary skills are affecting our Nation's productivity. Pat Choate, a senior economist at TRW, Inc., views "improving the quality of the work force as the principal route to increased national productivity, particularly in the coming decade when capital will become scarce and the technology of many other nations will be comparable to ours.[135]

The skilled labor shortage may also have a profound effect on the country's position in the area of world trade. Mr. Lincoln contends that:

> International competition will be intensified for national markets related to high technology and high skill outputs. We will have less skilled work force products to trade if the trend continues as reported by the Bureau of International Labor Affairs of the Department of Labor which said that the United States share of the world's skilled workers fell from 29 percent in 1963 to 26 percent in 1975. Since then we have dropped from second place to seventh place in what they call "measured skill endowments" of our work force.[136]

Finally, many commentators have expressed serious concern over the implication that the lack of skilled workers may have on our national defense capabilities. A 1980 report of the Defense Industrial Base Panel of the House Armed Services Committee claims that this lack of skilled labor has weakened our defense industry to the point that: "In the event of a war the U.S. defense industry would find it almost impossible to expand its weapons production suddenly and dramatically in the numbers necessary to sustain a prolonged conflict." [137] The same report concluded that "a major contributor to the increasing lead time cost currently affecting the defense and sub-community is a continuing shortage of skilled labor among small business contractors." [138]

The Nation's inability to meet the current and future defense production demands is being exacerbated by the rapid rise in automation and technology. For example, in World War II farmers and housewives were recruited to assist in the national defense program and trained overnight to build aircraft engines. Today, however, due to the advanced technology and sophisticated equipment, it literally takes years to train machinists and would take "the better part of a year to retrain someone from producing autos, for example, to work on high technology aerospace parts." [139]

Recognizing that the skilled labor shortage problem exists, many witnesses testified on possible solutions.

Specifically, the National Tooling and Machining Association suggested that Congress enact a specialized skills training tax credit

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[135] See testimony of Carnie Ives Lincoln on behalf of American Society for Training and Development before Senate Subcommittee on Employment and Productivity, Committee on Labor and Human Resources, hearings on Employment and Training Issues, June 5, 1981, p. 4.
[136] Ibid., p. 5.
[137] National Tooling and Machining Association, Hearing Record, Sept. 15, 1981.
[138] Ibid.
[139] Congressman Don Bailey, Hearing Record, Sept. 15, 1981.

which would be available to those critical industries which are presently facing an acute shortage of skilled workers.[140] In their view, the amount of the credit should be commensurate with the actual cost of training in order "to offset those costs and the loss of productivity which occurs during the training process."[141] This type of credit would be especially beneficial to small businessmen, who need skilled personnel to remain competitive, but who cannot afford the high cost of training such employees. In addition, the National Tooling and Machining Association advocates the creation of a joint industry and Government training program which would identify the manpower shortages and direct funds to programs that would teach individuals the skills necessary to meet the skilled labor market needs.[142]

Many proponents of the implementation of training programs stress the need to have Government, employers, and educational institutions work together to formulate a coordinated strategy designed specifically to rectify this critical skilled labor deficiency. For example, Mr. Carnie Ives Lincoln stated:

> There has been relatively little real cooperation between Federal job training programs and the private sector. There is an increasing recognition and rhetoric about the serious gaps between education and work. We must move toward new initiatives that involve all three sectors—and especially in a direction that gives employers a share of operational ownership in national programs.
>
> Federal job training programs should be directed to job knowledges and skills that relate to productive employment as assessed through real knowledge of the work place. We must have employers' views incorporated into federally funded education legislation that relates to jobs and careers such as the Vocational Education Act and some provisions of the Higher Education Act. When Congress does not consider employer views in developing such legislation, it tends to widen the education-work gap.[143]

Although there may be disagreements over the methodology employed to remedy this problem, it is apparent that the lack of skilled workers in this country is a critical issue which can no longer be overlooked.

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[140] National Tooling and Machining Association, Hearing Record, Sept. 15, 1981.
[141] Ibid.
[142] Ibid.
[143] See testimony of Carnie Ives Lincoln on behalf of American Society for Training and Development before Senate Subcommittee on Employment and Productivity, Committee on Labor and Human Resources, hearings on Employment and Training Issues, June 5, 1981, p. 4.

Chapter V.—Findings

On the basis of all the evidence received and further investigation by the Subcommittee on Tax, Access to Equity Capital and Business Opportunities, and upon a review of all available data:

A. The committee finds that the future vitality and economic growth of the United States economy is dependent on small business. This is evident from the fact that small business creates the predominance of all net new jobs for the Nation's work force. For this reason, small business is in an excellent position for playing a constructive role in moving the United States economy towards increased prosperity.

B. The committee finds that the Nation's economy is undergoing major structural changes. First, this involves a decline in the general prosperity of the Nation's older urban centers. Second, as many of the Nation's businesses move toward increased automation, there will be a radical restructuring in types of jobs and work skills required. Last, many small and medium sized businesses are facing an acute shortage of skilled labor.

C. We further find that as the Nation develops a revitalization plan to deal with the problems of the Nation's distressed urban areas, that plan should focus on the need to create and retain jobs. In addition, that plan should utilize the private sector, and small business in particular, to the largest extent possible in the creation and retention of such jobs.

More specifically, that plan should be well balanced in scope and should include provisions which particularly address the capital formation needs of business and of the community's work force. One way in which to meet the capital formation needs of business is to create a viable infrastructure base in a local community. This is important for the encouragement of business to locate and remain in urban areas. State and local governments, however, are finding it increasingly difficult to maintain a proper infrastructure base which is necessary for local economic development and job creation.

We also find that a well balanced revitalization plan should recognize the human capital needs of the community. A formal employment and training plan for the Nation is one method of helping the unemployed and underemployed. There have been criticisms made in the past, however, of the apparent ineffectiveness of certain Federal public sector jobs programs. As a response to such criticisms, the committee recognizes the need to promote private sector employment. The Private Sector Initiative Program of CETA is an example of one way in which to emphasize private sector employment. Under this program, private industry, labor, community organizations, and the local government consult with one another and provide funds to defray the cost to private companies of training the unemployed.

The committee also finds that in order for a well balanced revitalization plan to work, adequate financing must be made available

to firms locating in distressed areas. This can be accomplished by providing the firm or investors with seed capital or viable tax incentives. Tax reduction measures are an important way of increasing the internal cash flow of a profitable firm. Such incentives will encourage firms to locate and expand in an enterprise zone. However, tax incentives will not greatly benefit a small business which is in its start-up stage or early years of development. Thus, a start-up business must often look for other ways to meet its capital formation needs.

At a time of high fluctuating interest rates and in recognition of the fact that smaller firms have limited access to the securities and commercial paper markets, low cost seed capital loans are that much more important for the fostering of new business development in distressed areas.

We further find that venture capital programs such as the Small Business Investment Company (SBIC) program of the Small Business Administration could be an effective mechanism for providing working or seed capital to firms locating in distressed areas.

The committee recognizes the importance of targeted tax incentives as a supplement to the human capital, infrastructure, and seed capital needs of local communities. To the extent tax incentives are included in a well-balanced plan for economic development, it must be understood that many tax incentives do not have the same impact on the cash flow of all businesses equally. This necessitates a distinction between those tax incentives which meet the capital formation needs of labor intensive small businesses and those which meet the needs of capital intensive firms, such as manufacturers.

The committee further finds a jobs tax credit would particularly aid the capital formation needs of labor intensive firms located in urban areas. In addition, an accelerated depreciation or direct expensing provision (including investment tax credit relief) would greatly aid the cash flow needs of capital intensive small businesses. Further, the current limit on the amount of used equipment eligible for the investment tax credit is a discrimination against the small business person. Raising the limit substantially above the current $125,000 level would recognize the limited amount of capital small businesses have at their disposal.

We further find that a small business participating loan mechanism promises to offer a measure of relief for small firms from their capital formation burdens.

The committee finds the following other tax reduction measures or proposals as being viable incentives for fostering economic development: The rehabilitation investment tax credit; a credit to offset a portion of the interest earned by a lender on a loan; and a provision encouraging the use of Employeee Stock Ownership Plans (ESOPs). This latter incentive is particularly important as an inducement to increase the productivity of workers in distressed areas.

D. We find that tax exempt small issue industrial development bonds (IDBs) are an important economic development tool which can be utilized by States and local governments to stimulate business investment and employment. In particular, IDBs are an important source of low cost capital for small firms which are particularly

sensitive to high and volatile interest rates. To the extent there have been certain abuses in the use of IDBs, the program should be tightened and strengthened. Small issue IDBs have also proven to be a successful economic development tool for fostering business investment in many of the distressed areas of the Nation.

E. The committee further finds that many employers, especially small business persons, face an acute shortage of skilled workers. These shortages threaten the Nation's defense capabilities and have a profound effect on the country's position in world trade. Ways in which to resolve this problem are to provide for a specialized skills training tax credit for industries facing a demonstrable shortage of skilled labor and for a coordinated jobs training program utilizing the private sector.

Chapter VI.—Recommendations

On the basis of all the evidence received and further investigation by the Subcommittee on Tax, Access to Equity Capital and Business Opportunities, the committee (upon a review of all available data) recommends that the appropriate committees of the Congress:

A. Give favorable consideration to the development of a well balanced revitalization plan to deal with the problems of the Nation's distressed urban areas. The plan should focus on the need to create and retain jobs and should utilize small business in the pursuit of such efforts to the largest extent possible. Any well balanced revitalization plan should include such provisions as:

1. A procedure to insure a viable infrastructure base in local communities. In conjunction with this procedure, the local community should be responsible for determining its infrastructure needs.

2. A method to meet the human capital needs of the community. To the extent a national employment or training program is developed or utilized, it should primarily focus on the creation and retention of jobs in the private sector.

3. Adequate financing to encourage business investment in distressed areas. This can be accomplished by providing firms or investors with seed capital or viable tax incentives. The plan should recognize the fact that small businesses in the start-up or early years of development do not greatly benefit from tax incentives. For those businesses that cannot utilize tax reduction measures, low cost loan and venture capital programs would meet their seed capital needs.

4. Tax incentives to spur business expansion and investment. Any package of tax incentives that is developed should recognize that labor intensive small businesses have different capital formation needs than small capital intensive firms. Tax reduction measures which are appropriate for consideration as a part of a well balanced revitalization plan include (among others) jobs tax credits, direct expensing of capital investment, investment tax credit reform, rehabilitation investment tax credits for commercial buildings, small business participating loans, and incentives for encouraging the use of Employee Stock Ownership Plans.

B. Retain tax exempt small issue industrial development bonds as an economic development tool for State and local governments. To the extent there have been certain abuses in their use, the tax exempt status of IDBs should be tightened and strengthened.

C. Establish a procedure to resolve the critical skilled labor shortages facing many of the Nation's small- and medium-sized businesses.

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